

**PAJARO VALLEY UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2013**



PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Pajaro Valley Unified School District
Watsonville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and other post employment benefit information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

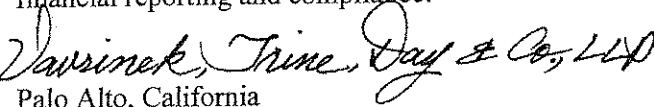
Other Information

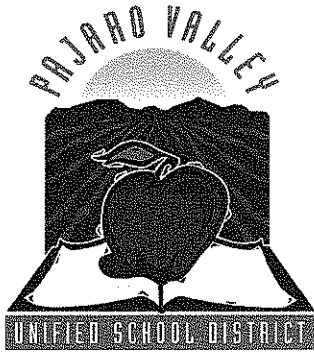
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pajaro Valley Unified School District's basic financial statements. The other supplementary information as listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by the U.S. Office of Management Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013, on our consideration of the Pajaro Valley Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pajaro Valley Unified School District's internal control over financial reporting and compliance.


Palo Alto, California
December 2, 2013



PAJARO VALLEY UNIFIED SCHOOL DISTRICT

294 Green Valley Road, Watsonville, CA 95076
(831) 786-2100

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis section of the 2012-2013 Annual Financial Audit summarizes the District's financial performance during the 2012-2013 fiscal year ending June 30, 2013. The District's financial systems and reporting adhere to standards and requirements prescribed under the Governmental Accounting Standards Board (GASB), State Board of Education, federal law, and the California *Education Code*.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Pajaro Valley Unified School District (the District) using the integrated approach as prescribed by GASB Statement Number 34.

- The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present major governmental activities in accordance with accrual accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to inter-fund activity, payables, and receivables.
- The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.
- The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
- The *Proprietary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.
- The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

The Pajaro Valley Unified School District is the primary governmental agency represented in this audit. The District also includes five charter schools established and overseen pursuant to the *Education Code*. They include Linscott Elementary, Watsonville School of the Arts, Pacific Coast Charter School, Alianza Charter School, and Academic Vocational Charter Institute. Financial information for the charter schools is included in the special revenue, charter school fund of the District. Separately issued financial statements for the charter schools are not prepared.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the District as a whole and its activities. These statements include all assets and liabilities using the accrual basis of accounting. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. These statements are one measure of the District's financial health and position. Over time, increases or decreases in the District's net position is one indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

Overall, these factors are subject to significant influences from state and federal education funding policies. As a result of current economic conditions, they have undergone dramatic fluctuations over the past five fiscal years. These changes have largely been unforeseen and unprecedented. Projections indicate this condition will continue over the next two fiscal years.

The relationship between revenues and expenses is the District's operating results. Since the Board's responsibility is to provide services to all students, and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the instructional program, academic achievement among students, and the safety and condition of school facilities are important components in the evaluation of District effectiveness.

In the *Statement of Net Position* and the *Statement of Activities*, we include the District activities as follows:

Governmental Activities - All of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, other student services, and the on-going effort to improve and maintain buildings and sites. Property taxes, state education funding, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by state law and by general obligation bond covenants. In addition, District leadership establishes many other funds to provide appropriate fiscal control and accountability to manage money for particular purposes. Specified funds will also provide legally required reporting demonstrating the District's compliance with state and federal education funding requirements and other legal/statutory guidelines.

Governmental Funds - Most of the District's basic services are reported in governmental funds. These focus on how money flows into and out of those funds and the balances left at year-end. Specific funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance District programs. The differences of results in the governmental fund financial statements compared to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service fund is reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, such as funds for associated student body activities, scholarships, and employee retiree benefits. The District's fiduciary activities are reported in the Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its general operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$120.3 million and \$133.5 million for the fiscal years ended June 30, 2013 and 2012, respectively. Of this amount, \$12.9 million and \$16.0 million were unrestricted for fiscal years ending June 30, 2013 and 2012, respectively. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

TABLE 1

	Governmental Activities	
	2013	2012
Current and other assets	\$ 167,150,657	\$ 89,785,515
Capital assets	145,765,455	155,271,695
Total Assets	312,916,112	245,057,210
Current liabilities	26,980,025	27,642,308
Long-term debt	165,637,131	83,952,956
Total Liabilities	192,617,156	111,595,264
Net position		
Net investment in capital assets	78,997,262	94,219,122
Restricted	28,366,521	23,196,199
Unrestricted	12,935,173	16,046,625
Total Net Position	\$ 120,298,956	\$ 133,461,946

The \$12.9 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. It means that if the District had to pay off all of its bills today including all of our non-capital liabilities (compensated absences as an example) we would need \$12.9 million.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Changes in Net Position

The results of 2012-2013 general operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from the Statement and rearranges it slightly so total revenues and expenses for the year.

TABLE 2

	Governmental Activities	
	2013	2012
Revenues		
Program revenues		
Charges for services	\$ 956,824	\$ 1,002,192
Operating grants and contributions	76,390,419	78,624,347
Capital grants and contributions	-	235
General revenues:		
Federal and state sources	75,361,488	74,167,926
Property taxes	52,217,478	52,189,694
Other general revenues	2,665,859	5,990,370
Total Revenues	207,592,068	211,974,764
Expenses		
Instruction related	165,157,909	166,559,971
Student support services	27,964,677	25,343,361
Administration	4,816,506	2,777,150
Maintenance and operations	16,761,877	17,095,838
Other	6,054,089	3,839,457
Total Expenses	220,755,058	215,615,777
Change in Net Position	\$ (13,162,990)	\$ (3,641,013)

Governmental Activities

As reported in the Statement of Activities, the cost of all of governmental activities in 2012-2013 was \$220.8 million. However, the amount that District taxpayers ultimately financed for related activities through local taxes was only \$144.0 million. This is because \$77.4 million was paid by those benefiting from District programs or by other governments and organizations who subsidized certain programs with grants and contributions. The District paid for the remaining "public benefit" portion of its governmental activities with \$75.4 million in State and federal funds and with other revenues, such as interest and general entitlements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

In Table 3, we have presented the net cost of each of the District's largest functions - (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows members of the public to consider the cost of each function in comparison to the benefits they believe are provided by that function.

TABLE 3

	Net Cost of Services	
	2013	2012
Instruction and instruction related	\$ 110,713,429	\$ 107,432,765
Pupil services	12,286,580	8,896,758
General administration	3,314,781	1,133,026
Maintenance and operations	16,169,778	16,452,803
Other	923,247	2,073,651
Totals	<u>\$ 143,407,815</u>	<u>\$ 135,989,003</u>

GENERAL FUND HIGHLIGHTS

As the District ended the 2012-2013 fiscal year, governmental funds reported an ending fund balance of \$133.5 million. The unassigned fund balance was \$32.4 million. This reflected a \$2.5 million increase in the General Fund ending balance as compared to the District's estimated ending balance earlier in the fiscal year. This increase was largely one-time in nature and constitutes less than a three percent increase in General Fund revenues. District staff provided the Board of Trustees and public information highlighting projected and actual variances to the District's expenditures and revenues over the course of the fiscal year. This is a standard practice. This information can be found on the District's website (www.pvUSD.net) in the Business Services section.

For the first time in five years, the District's ongoing funding remained relatively constant throughout the fiscal year. This was largely due to the passage of Proposition 30 in November of 2012. The District avoided a projected \$8 million ongoing reduction to State education funding if the initiative failed. The passage of Proposition 30 did not result in any additional revenue to public education, but it did serve to stabilize education funding overall and keep the District's 2012-2013 revenues status quo with the previous fiscal year.

The stabilization of the District's revenues was welcome news. From 2008-2009 until 2012-2013, the District experienced unprecedented challenges associated with the impacts of the Great Recession. Beginning in 2008-2009, the District experienced an approximate 23 percent reduction in ongoing state education funding. This was the result of funding reductions enacted by the state in 2008-2009 and 2009-2010. This forced the District to implement more than \$18.5 million in program and personnel reductions over four fiscal years.

In addition, the District did not receive a cost of living adjustment or any other increase to per ADA funding for five fiscal years. The 2012-2013 fiscal year marked the fifth straight year the District was forced to operate with reduced funding while operating expenses continued to increase. By the end of fiscal year 2012-2013, the District's average student funding was at levels lower than it was in 2006-2007.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

There is cause for further optimism. With education funding stabilized as a result of Proposition 30's passage, State lawmakers enacted a sweeping reform of the State's education funding system. Known as the Local Control Funding Formula (LCFF), the new funding system will radically alter the manner in which California school districts are funded and held accountable for such funding. PVUSD is a district that will likely see increases to its State revenues during the law's eight-year implementation period. Additional information regarding the LCFF is provided later in this document.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013 and 2012, the District had \$145.8 million and \$155.3 million, net of depreciation in a broad range of capital assets including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of just under \$9.5 million, or 6.1 percent, from last year.

TABLE 4

	Governmental Activities	
	2013	2012
Land	\$ 17,055,144	\$ 17,055,144
Construction in progress	1,420,824	503,607
Buildings and improvements	261,363,024	261,065,637
Equipment	5,369,122	4,548,819
Accumulated depreciation	(139,442,659)	(127,901,512)
Totals	\$ 145,765,455	\$ 155,271,695

This year's additions to capital assets of \$2.0 million (excluding depreciation) are primarily from site improvement projects at various sites and the purchase of 10 Special Ed busses. Projects were started using the District's Measure L general obligation bond funds but none were completed in 2012-2013. Measure L was enacted by District voters in November 2012.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Long-Term Debt

At the end of this year, the District had \$139.2 million in bonds outstanding. The District's long-term debt is summarized below.

TABLE 5

	Governmental Activities	
	2013	2012
Certificates of participation	\$ -	\$ 2,595,431
General obligation bonds	139,165,939	57,472,813
Bond premium	5,688,550	644,681
Defeasance costs	(2,950,814)	-
Accumulated vacation - net	2,281,404	1,970,195
Supplemental employees retirement plan	5,031,986	8,370,838
Capital leases	931,435	339,648
Other post employment benefits	20,280,740	17,197,592
Totals	\$ 170,429,240	\$ 88,591,198

The State limits the amount of general obligation debt school districts can issue to 2.5 percent of the assessed value of all taxable property within a district's legal boundaries.

Other financial obligations include compensated absences payable, certificates of participation, capital leases and other long-term debt. We present more detailed information regarding the District's long-term liabilities in Note 8 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2012-2013 ARE NOTED BELOW:

Over the course of the recession, the Board of Trustees exercised sound and proactive fiscal policy. This was despite five years of unprecedented state budget reductions and no COLA increases. The board responded decisively by enacting three fiscal stabilization plans that included significant personnel and programmatic reductions. These courageous actions helped to maintain the District's fiscal solvency and protect core instructional programs during the worst of the crisis.

As a result, the District is in a much better fiscal situation than comparable school districts, and most other public sector agencies. The District has strong reserves allowing it to begin making reinvestments to its instructional and operational programs earlier, and with more earnest, than many other school districts in the region.

As a result, the District was able to accomplish the following in the 2012-2013 fiscal year:

- Passage of the Measure L School Bond – a \$150 million school bond intended to modernize District facilities, complete several school sites, provide increased safety and technology for students, and seek to decrease General Fund expenditures via reductions in energy utilization and addressing deferred maintenance issues

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

- Continued implementation of the Common Core State Standards
- Restored the instructional calendar to the statewide average of 180 days of instruction and ended employee furloughs one year ahead of schedule
- Continued protection of funding for vital student services such as libraries, athletics, after-school enrichment, school counselors, and home-to-school transportation
- Other accomplishments included:
 - Secured ongoing funding for library media technicians in elementary and middle schools
 - Restored after-school sports for middle school grades
 - One-time funding for Aptos area schools instructional technology upgrades
 - Funded additional professional development and intervention services for at-risk students
 - Restored portions of the summer school program and implemented a new instructional program for summer school students
- Maintained overall funding and staffing for core instructional and operational programs at current levels with no budget related layoffs and/or position eliminations
- Prioritized critical deferred maintenance programs for facility repairs and improvements across the district
- Maintained a vibrant instructional technology program, with expanded services in Aptos area schools, while maintaining federal E-Rate funding in Watsonville area schools
- Engaged in improved and ongoing fiscal transparency and communication on fiscal, budget, and facility planning matters

FISCAL OUTLOOK FOR 2013-14

In January 2013, Governor Brown proposed the LCFF. As proposed, the LCFF is the most sweeping change to school finance in more than 40 years. The elements of the final LCFF had just been agreed to in Sacramento when the 2013-2014 budget went to print. Although details regarding its complete implementation have not been released by the state, all school districts and county offices of education will transition into the new funding model during 2013-2014 and 2014-2015. The model will include annual per ADA revenue increases over an eight-year period. At the end of this period, the District will reach a per ADA target amount determined pursuant to the LCFF formula.

The District has begun the transition process necessary to implement the LCFF according to statutory guidelines. All school districts in the State will be required to develop a Local Control Accountability Plan (LCAP) detailing how they will implement the LCFF and adhere to its provisions. District staff will outline the District's implementation of the LCFF via that document. The accountability plan will be subject to public input, review, and board adoption in public session. The District's LCAP will be developed in the spring of 2014 and approved by the Board of Trustees no later than June 30, 2014.

The District's fiscal recovery will take time. The long-term effects of the recession will require several years to overcome. The District will not be able to restore everything all at once. Under the LCFF, district revenues are projected to grow incrementally over an eight-year period. It is important to note that revenues will return to levels near where districts were funded by the state in 2007-2008.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

In addition, the District will need to address its structural imbalance between revenues and expenditures. Due to State budget reductions and no COLAs, the District has been deficit spending the past three fiscal years. The District's reserves have bridged this funding gap. Future revenue increases associated with the LCFF should be sufficient to successfully address deficit spending. However, this will require a portion of new revenues to be dedicated to deficit reduction over the next couple of years. Reinvestments in positions and personnel will need to be balanced against the need to bring the District's fiscal position back into balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The annual financial report is designed to provide District citizens, taxpayers, investors and creditors with a general overview of the District's finances and accountability for the public funds it administers under law. For additional information and/or questions about this report or other District financial activities, please contact:

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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities
ASSETS	
Deposits and investments	\$ 131,753,248
Receivables	33,661,810
Prepaid expenses	1,386,174
Stores inventories	349,425
Capital assets not depreciated	18,475,968
Capital assets, net of accumulated depreciation	127,289,487
Total Assets	312,916,112
LIABILITIES	
Accounts payable	4,063,372
Interest payable	1,179,812
Deferred revenue	3,328,512
Claim liabilities	13,616,220
Current portion of long-term obligations	4,792,109
Noncurrent portion of long-term obligations	165,637,131
Total Liabilities	192,617,156
NET POSITION	
Net investment in capital assets	78,997,262
Restricted for:	
Debt service	4,994,407
Capital projects	1,186,489
Food program	3,193,280
Child development program	11,296
Charter schools	2,542,580
Self-Insurance	12,636,309
Grant restricted	3,802,160
Unrestricted	12,935,173
Total Net Position	\$ 120,298,956

The accompanying notes are an integral part of these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 127,101,723	\$ 80,427	\$ 38,698,019	\$ (88,323,277)
Instruction-related activities:				
Supervision of instruction	19,077,869	24,685	14,395,771	(4,657,413)
Instructional library, media, and technology	4,005,405	2,395	1,152,895	(2,850,115)
School site administration	14,972,912	550	89,738	(14,882,624)
Pupil services:				
Home-to-school transportation	6,274,283	119,798	2,625,564	(3,528,921)
Food services	9,864,508	612,176	8,888,376	(363,956)
All other pupil services	11,825,886	6,623	3,425,560	(8,393,703)
Administration:				
Data processing	1,554,496	-	-	(1,554,496)
All other administration	3,262,010	18,409	1,483,316	(1,760,285)
Plant services	16,761,877	5,282	586,817	(16,169,778)
Ancillary services	820,606	1,220	106,561	(712,825)
Community services	18,679	-	-	(18,679)
Interest on long-term obligations	5,158,157	-	-	(5,158,157)
Other outgo	56,647	85,259	4,937,802	4,966,414
Total Governmental Activities	\$ 220,755,058	\$ 956,824	\$ 76,390,419	(143,407,815)
General revenues and subventions:				
Property taxes, levied for general purposes				47,990,064
Property taxes, levied for debt service				3,965,107
Taxes levied for other specific purposes				262,307
Federal and State aid not restricted to specific purpose				75,361,488
Interest and investment earnings				100,285
Miscellaneous				2,565,574
Subtotal, General Revenues				130,244,825
Change in Net Position				(13,162,990)
Net Position - Beginning				133,461,946
Net Position - Ending				\$ 120,298,956

The accompanying notes are an integral part of these financial statements.

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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2013

	General Fund	Charter School Fund	Child Development Fund	Cafeteria Fund	Building Fund
ASSETS					
Deposits and investments	\$ 17,030,760	\$ 1,834,785	\$ 995,227	\$ 2,931,228	\$69,943,871
Receivables	28,939,486	2,020,279	190,861	1,358,069	-
Due from other funds	4,292,673	-	-	-	-
Prepaid expenses	1,386,174	-	-	-	-
Stores inventories	193,113	-	-	156,312	-
Total Assets	\$ 51,842,206	\$ 3,855,064	\$ 1,186,088	\$ 4,445,609	\$69,943,871
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,128,993	\$ 32,835	\$ 406,767	\$ 88,609	\$ 129,973
Due to other funds	-	1,279,649	74,853	1,163,720	-
Deferred revenue	2,577,582	-	693,172	-	-
Total Liabilities	4,706,575	1,312,484	1,174,792	1,252,329	129,973
Fund Balances:					
Nonspendable	1,699,287	-	-	156,312	-
Restricted	10,055,179	2,542,580	11,296	3,036,968	69,813,898
Committed	-	-	-	-	-
Assigned	3,000,373	-	-	-	-
Unassigned	32,380,792	-	-	-	-
Total Fund Balances	47,135,631	2,542,580	11,296	3,193,280	69,813,898
Total Liabilities and Fund Balances	\$ 51,842,206	\$ 3,855,064	\$ 1,186,088	\$ 4,445,609	\$69,943,871

The accompanying notes are an integral part of these financial statements.

Non Major Governmental Funds	Total Governmental Funds
\$ 10,572,002	\$ 103,307,873
109,085	32,617,780
319,310	4,611,983
-	1,386,174
-	349,425
<u>\$ 11,000,397</u>	<u>\$ 142,273,235</u>

\$ 133,080	\$ 2,920,257
-	2,518,222
57,758	3,328,512
<u>190,838</u>	<u>8,766,991</u>
-	1,855,599
7,949,146	93,409,067
2,860,413	2,860,413
-	3,000,373
-	32,380,792
<u>10,809,559</u>	<u>133,506,244</u>
<u>\$ 11,000,397</u>	<u>\$ 142,273,235</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2013

Amounts Reported for Governmental Activities in the Statement
of Net Position are Different Because:

Total Fund Balance - Governmental Funds \$ 133,506,244

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported as assets in governmental
funds.

The cost of capital assets is	\$ 285,208,114	
Accumulated depreciation is	<u>(139,442,659)</u>	
Net Capital Assets		145,765,455

In governmental funds, unmatured interest on long-term debt is
recognized in the period when it is due. On the government-wide
statements, unmatured interest on long-term debt is recognized
when it is incurred.

(1,179,812)

An internal service fund is used by the District's management to
charge the costs of the self insurance programs to the individual
funds. The assets and liabilities of the internal service fund are
included with governmental activities.

12,636,309

Long-term liabilities, including bonds payable, are not due and payable
in the current period and, therefore, are not reported as liabilities in
the funds.

Long-term liabilities at year end consist of:

Bonds payable	139,165,939	
Unamortized bond premium	5,688,550	
Unamortized defeasance costs	(2,950,814)	
Capital leases payable	931,435	
Compensated absences (vacations)	2,281,404	
Supplemental employee retirement plan	5,031,986	
OPEB obligations	<u>20,280,740</u>	
Total Long-Term Liabilities		(170,429,240)
Total Net Position - Governmental Activities		<u>\$ 120,298,956</u>

The accompanying notes are an integral part of these financial statements.

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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Charter School Fund	Child Development Fund	Cafeteria Fund	Building Fund
REVENUES					
Revenue limit sources	\$ 91,760,292	\$ 7,947,362	\$ -	\$ -	\$ -
Federal sources	23,859,552	-	6,990,656	8,443,376	-
Other state sources	52,103,053	2,062,783	2,583,813	663,533	-
Other local sources	3,445,625	136,607	403,168	637,793	34,675
Total Revenues	171,168,522	10,146,752	9,977,637	9,744,702	34,675
EXPENDITURES					
Instruction	108,102,128	6,712,499	5,982,936	-	-
Instruction-related activities:					
Supervision of instruction	15,274,895	107,911	2,073,470	-	-
Instructional library, media and technology	3,345,431	232,453	110,402	-	-
School site administration	9,757,959	3,397,935	82,431	-	-
Pupil services:					
Home-to-school transportation	6,613,748	-	-	-	-
Food services	18,745	80,474	338	9,135,012	-
All other pupil services	9,961,014	12,320	998,160	-	-
Administration:					
Data processing	1,450,352	-	-	-	-
All other administration	5,210,027	3,364	248,964	233,293	-
Plant services	13,956,330	315,324	492,874	2,512	17,636
Facility acquisition and construction	156,063	-	8,718	-	681,684
Ancillary services	762,901	2,729	-	-	-
Community services	17,427	-	-	-	-
Other outgo	56,647	-	-	-	-
Debt service					
Principal	289,131	-	-	-	1,269,321
Interest and other	96,369	-	-	-	1,946,498
Total Expenditures	175,069,167	10,865,009	9,998,293	9,370,817	3,915,139
Excess of Expenditures Over Revenues	(3,900,645)	(718,257)	(20,656)	373,885	(3,880,464)
Other Financing Sources (Uses)					
Transfers in	6,279,550	292,425	-	-	-
Other sources	759,812	-	-	-	111,351,948
Transfers out	(651,792)	-	-	-	(6,250,000)
Other uses	-	-	-	-	(31,407,586)
Net Financing Sources (Uses)	6,387,570	292,425	-	-	73,694,362
NET CHANGE IN FUND BALANCES	2,486,925	(425,832)	(20,656)	373,885	69,813,898
Fund Balance - Beginning	44,648,706	2,968,412	31,952	2,819,395	-
Fund Balance - Ending	\$ 47,135,631	\$ 2,542,580	\$ 11,296	\$ 3,193,280	\$ 69,813,898

The accompanying notes are an integral part of these financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 99,707,654
141,647	39,435,231
915,625	58,328,807
5,412,968	10,070,836
<u>6,470,240</u>	<u>207,542,528</u>
1,177,507	121,975,070
343,467	17,799,743
48,776	3,737,062
731,473	13,969,798
-	6,613,748
-	9,234,569
62,114	11,033,608
-	1,450,352
43,920	5,739,568
1,002,965	15,787,641
208,730	1,055,195
-	765,630
-	17,427
-	56,647
1,970,000	3,528,452
<u>1,822,250</u>	<u>3,865,117</u>
<u>7,411,202</u>	<u>216,629,627</u>
<u>(940,962)</u>	<u>(9,087,099)</u>
359,367	6,931,342
3,668,996	115,780,756
-	(6,901,792)
-	(31,407,586)
<u>4,028,363</u>	<u>84,402,720</u>
3,087,401	75,315,621
<u>7,722,158</u>	<u>58,190,623</u>
<u>\$ 10,809,559</u>	<u>\$ 133,506,244</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Total Net Change in Fund Balances - Governmental Funds \$ 75,315,621
Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	\$ (11,541,147)	
Capital outlays	<u>2,034,907</u>	
Net Expense Adjustment		(9,506,240)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$311,209. (311,209)

Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds. 537,075

Payment of capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 168,025

Payment of the principal of certificates of participation is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net position and does not affect the statement of activities. 2,595,431

Payment of the principal of general obligation bonds is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net position and does not affect the statement of activities. 28,870,000

The accompanying notes are an integral part of these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2013

Accreted interest on capital appreciation bonds is not recorded in the governmental funds, but it increases the bond principals in the statement of net position and increases interest expense in the statement of activities.			(1,123,126)
Other postemployment benefit expenditures are recorded in the governmental funds to the extent of amounts actually funded. However, in the statement of activities, the expense is recorded for the full amount of the accrual-basis annual OPEB cost.			(3,083,148)
Proceeds received from the issuance of bonds payable are recognized as revenues in the governmental funds but are recognized as liabilities in the government-wide statements.			
Proceeds from Sale of Bonds	(109,440,000)		
Premiums	(5,580,944)		
Defeasance Cost	<u>2,950,814</u>	(112,070,130)	
Equipment acquired under the terms of a capital lease is recognized as revenues in the governmental funds but are recognized as liabilities in the government-wide statements.			(759,812)
Supplemental employee retirement plan payment is an expenditure in the governmental funds, but it decreases the long-term liabilities in the statement of net position and does not affect the statement of activities.			3,338,852
An internal service fund is used by the District's management to charge the costs of the various insurance programs to the individual funds. The net revenue of the internal service fund is reported with governmental activities.			<u>3,220,892</u>
Change in Net Position of Governmental Activities			<u>\$ (13,162,990)</u>

The accompanying notes are an integral part of these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 28,445,375
Receivables	1,044,030
Total Current Assets	<u>29,489,405</u>
LIABILITIES	
Current Liabilities	
Accounts payable	1,107,035
Due to other funds	2,129,841
Claim liabilities	13,616,220
Total Current Liabilities	<u>16,853,096</u>
NET POSITION	
Restricted for insurance programs	12,636,309
Total Net Position	<u>\$ 12,636,309</u>

The accompanying notes are an integral part of these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

**Governmental
Activities -
Internal
Service Fund**

OPERATING REVENUES

In-district contributions	\$ 43,545,041
Total Operating Revenues	<u>43,545,041</u>

OPERATING EXPENSES

Payroll costs	193,750
Claims and insurance expense	40,150,389
Total Operating Expenses	<u>40,344,139</u>
Operating Income	<u>3,200,902</u>

NONOPERATING REVENUES (EXPENSES)

Interest income	49,540
Transfers out	(29,550)
Total Nonoperating Revenues (Expenses)	<u>19,990</u>

Change in Net Position	<u>3,220,892</u>
Total Net Position - Beginning	<u>9,415,417</u>
Total Net Position - Ending	<u><u>\$ 12,636,309</u></u>

The accompanying notes are an integral part of these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 45,110,079
Cash payments to employees for services	(193,750)
Cash payments for insurance claims	(40,670,478)
Net Cash provided by Operating Activities	<u>4,245,851</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	(29,550)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	49,540
Net increase in Cash and Cash Equivalents	<u>4,265,841</u>
Cash and Cash Equivalents - Beginning	24,179,534
Cash and Cash Equivalents - Ending	<u><u>\$ 28,445,375</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 3,200,902
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Receivables	(744,370)
Due from other funds	179,567
Accrued liabilities	536,825
Claims liabilities	(1,056,914)
Due to othe funds	2,129,841
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 4,245,851</u></u>

The accompanying notes are an integral part of these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2013

	Retiree Benefits Trust	Scholarship Trust	Agency Funds
ASSETS			
Deposits and investments	\$ 3,491,950	\$ 2,106,117	\$ 611,533
Due from other funds	36,080	-	-
Total Assets	<u>3,528,030</u>	<u>2,106,117</u>	<u>\$ 611,533</u>
LIABILITIES			
Accounts payable	-	178,275	\$ -
Due to student groups	-	-	611,533
Total Liabilities	<u>-</u>	<u>178,275</u>	<u>\$ 611,533</u>
NET POSITION			
Held in trust for scholarship and retiree benefits	3,528,030	1,927,842	
Total Net Position	<u>\$ 3,528,030</u>	<u>\$ 1,927,842</u>	

The accompanying notes are an integral part of these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

**STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
Private donations	\$ -	\$ 217,351
District contributions	4,943,178	-
Investment income	3,243	7,088
Net increase in fair market value of investments	188,147	-
Total Additions	5,134,568	224,439
DEDUCTIONS		
Benefit payments	4,362,971	-
Scholarships awarded	-	138,738
Total Deductions	4,362,971	138,738
Change in Net Position	771,597	85,701
Net Position - Beginning	2,756,433	1,842,141
Net Position - Ending	\$ 3,528,030	\$ 1,927,842

The accompanying notes are an integral part of these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Pajaro Valley Unified School District was unified in 1964 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates sixteen elementary, six middle, three high school, one community day school, one continuation high school, an adult education school, twelve childcare centers, a migrant center and five charter schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Pajaro Valley Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units – Charter Schools

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to operate charter schools authorized by the District.

The District has approved Charters for Academic Vocational, Alianza Elementary, Linscott Elementary, Watsonville School of Arts, Pacific Coast and Ceiba Charter School pursuant to *Education Code* Section 47605. All Charter Schools, except Ceiba, are operated by the District and their financial activities are accounted for in the charter school special revenue fund. Ceiba Charter School is not a component unit of the District.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with Schools Association For Excess Risk (SAFER), Protection Insurance Program for Schools (PIPS), and public entity risk pools Benefit Liability Excess Fund (BeLiEF) that provides insurance coverage to the District. These organizations do not meet the criteria for inclusion as component units of the District. The District also participates in the Henry J. Mello Center for the Performing Arts Administration Agency (the JPA), through a joint powers agreement with the City of Watsonville and the District. Each member's board appoints three directors. The JPA was established for the purpose of administering all functions necessary for the operation and maintenance of the Performing Arts Center (the Center). On August 2, 1994, the JPA entered into a management, operation and maintenance agreement with the Pajaro Valley Performing Arts Association (PVPAA), a tax exempt, nonprofit public benefit corporation. The agreement was for a period of ten years and has been reviewed and continued annually, whereby; PVPAA shall

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

operate the Center and perform all services reasonably required in connection with the management and operation of the Center. PVPAA shall pay costs and operating expenses of every kind pertaining to the Center's operation.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Charter Schools Fund This fund may be used by authorizing Districts to account separately for the activities of District-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

Child Development Fund The Child Development Fund is used to account separately for federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for federal, State, and local resources to operate the food service program (*Education Code* sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Adult Education Fund The Adult Education Fund is used to account separately for federal, State, and local resources committed for adult education programs and is to be expended for adult education purposes only.

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for resources committed for deferred maintenance purposes.

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* sections 15125-15262).

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of capital facilities and other major capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* sections 17620-17626. Expenditures are restricted to the purposes specified in *Government Code* sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has only one internal service fund which is Self-Insurance fund.

Self-Insurance Fund Self-Insurance funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates workers' compensations, health, dental and vision programs that are accounted for in the Self-Insurance fund.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust funds are Retiree Benefits Trust and Private Purpose Scholarship Trust. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their net position use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

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Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

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Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2013, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County and State investment pools are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures/expenses over the benefiting period.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$25,000 with the exception to federally funded equipment which has a threshold of \$2,000 for expenditures pertaining to Food Services and \$5,000 for all others. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental column of the statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified and certificated school members who retire after January 1, 1999. At retirement, each member will receive service credit for each day of unused sick leave per STRS and PERS regulations.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

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Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term debt obligations and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balances - Governmental Funds

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board, chief business officer and assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are interfund insurance premium. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental columns of the statement of activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Cruz bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and

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financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

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- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 103,307,873
Proprietary fund	28,445,375
Fiduciary funds	6,209,600
Total Deposits and Investments	<u>\$ 137,962,848</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 2,601,661
Cash in revolving	120,000
Investments	135,241,187
Total Deposits and Investments	<u>\$ 137,962,848</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the U.S. Government bonds are not required to be rated, nor have they been rated as of June 30, 2013. Pooled investments, such as the county pool and mutual funds were not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool.

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Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Cost	Fair Value	Maturity in Years
U.S. Government Bonds	\$ 19,900	\$ 26,131	3.88
Mutual Funds	2,297,356	2,297,356	0.00
County Pool	132,923,931	132,291,612	1.43
Total	<u>\$ 135,241,187</u>	<u>\$ 134,615,099</u>	

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, the District's bank balance of \$747,071 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 – RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Charter School Fund	Child Development Fund	Cafeteria Fund	Non-Major Governmental Funds	Total	Proprietary Fund
Federal Government							
Categorical aid	\$ 6,329,476	\$ -	\$ 168	\$ 1,255,337	\$ 85,580	\$ 7,670,561	\$ -
State Government							
Apportionment	17,640,743	1,840,218	-	-	18,063	19,499,024	-
Categorical aid	2,849,907	45,952	133,416	102,732	-	3,132,007	-
Lottery	1,649,190	134,109	-	-	-	1,783,299	-
Other Local Sources	470,170	-	57,277	-	5,442	532,889	1,044,030
Total	<u>\$ 28,939,486</u>	<u>\$ 2,020,279</u>	<u>\$ 190,861</u>	<u>\$ 1,358,069</u>	<u>\$ 109,085</u>	<u>\$ 32,617,780</u>	<u>\$ 1,044,030</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Balance June 30, 2013
Governmental Activities			
Capital Assets Not Being Depreciated:			
Land	\$ 17,055,144	\$ -	\$ 17,055,144
Construction in Progress	503,607	917,217	1,420,824
Total Capital Assets Not Being Depreciated	17,558,751	917,217	18,475,968
Capital Assets Being Depreciated:			
Buildings and Improvements	261,065,637	297,387	261,363,024
Furniture and Equipment	4,548,819	820,303	5,369,122
Total Capital Assets Being Depreciated	265,614,456	1,117,690	266,732,146
Less Accumulated Depreciation:			
Buildings and Improvements	124,472,854	11,345,942	135,818,796
Furniture and Equipment	3,428,658	195,205	3,623,863
Total Accumulated Depreciation	127,901,512	11,541,147	139,442,659
Capital Assets Being Depreciated, Net	137,712,944	(10,423,457)	127,289,487
Governmental Activities Capital Assets, Net	\$ 155,271,695	\$ (9,506,240)	\$ 145,765,455

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 6,702,346
Supervision of Instruction	1,008,667
Instructional Library and Media	211,770
School Site Administration	791,634
Home to School Transpiration	331,728
Food Services	523,300
All Other Pupil Services	625,247
Ancillary Services	43,386
Community Services	988
All General Administration	325,247
Data Processing Services	82,188
Plant Services	894,646
Total Depreciation Expense	\$ 11,541,147

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivables and payable balances arise from interfund transactions and are recorded by all funds affected in the period which transactions are executed. Interfund receivable and payable balances at June 30, 2013, between major and non-major governmental funds, proprietary funds and fiduciary funds are as follows:

Due To	Due From			Total
	General Fund	Non-Major Governmental Funds	Retiree Benefit Trust	
Charter School Fund	\$ 1,237,832	\$ 41,817	\$ -	\$ 1,279,649
Child Development	-	38,773	36,080	74,853
Cafeteria Fund	925,000	238,720	-	1,163,720
Proprietary Funds	2,129,841	-	-	2,129,841
Total	<u>\$ 4,292,673</u>	<u>\$ 319,310</u>	<u>\$ 36,080</u>	<u>\$ 4,648,063</u>

Operating Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfer Out	Transfer In			Total
	General Fund	Charter School Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 292,425	\$ 359,367	\$ 651,792
Building Fund	6,250,000	-	-	6,250,000
Internal Service Fund	29,550	-	-	29,550
Total	<u>\$ 6,279,550</u>	<u>\$ 292,425</u>	<u>\$ 359,367</u>	<u>\$ 6,931,342</u>

The General Fund transferred to the Charter Schools Fund for contributions to Alianza Vocational Charter School and Teir III programs.

\$ 292,425

The General Fund transferred to the Adult Education Fund for lottery funding and Community Based English Tutoring program.

331,790

The General Fund transferred to the County School Facility Fund for capital projects.

27,277

The Building Fund transferred to the General Fund for deferred maintenance and technology endowments projects related to maintenance of facilities and technology upgrades.

6,250,000

The Self-Insurance Fund transferred to the General Fund for cost reimbursement.

29,550

Total

\$ 6,931,042

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Charter School Fund	Child Development Fund	Cafeteria Fund	Building Fund
Vendor payables	\$ 992,015	\$ 2,844	\$ 49,846	\$ 73,299	\$ 129,973
Salaries and benefits	1,136,978	29,991	356,921	15,310	-
Total	<u>\$ 2,128,993</u>	<u>\$ 32,835</u>	<u>\$ 406,767</u>	<u>\$ 88,609</u>	<u>\$ 129,973</u>

	Non-Major Governmental Funds	Total	Proprietary Fund	Fiduciary Funds
Vendor payables	\$ 67,995	\$ 1,315,972	\$ 1,107,035	\$ 178,275
Salaries and benefits	65,085	1,604,285	-	-
Total	<u>\$ 133,080</u>	<u>\$ 2,920,257</u>	<u>\$ 1,107,035</u>	<u>\$ 178,275</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of the following:

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 1,161,445	\$ 487,089	\$ -	\$ 1,648,534
State categorical aid	50,731	23,755	-	74,486
Other local	1,365,406	182,328	57,758	1,605,492
Total	<u>\$ 2,577,582</u>	<u>\$ 693,172</u>	<u>\$ 57,758</u>	<u>\$ 3,328,512</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance June 30, 2012	Accretion/ Additions	Deductions	Balance June 30, 2013	Due in One Year
General obligation bonds	\$ 57,472,813	\$ 110,563,126	\$ 28,870,000	\$ 139,165,939	\$ 2,510,000
Bond premium	644,681	5,580,944	537,075	5,688,550	284,360
Bond defeasance cost	-	(2,950,814)	-	(2,950,814)	(327,004)
Certificates of participation	2,595,431	-	2,595,431	-	-
Accumulated vacation - net	1,970,195	311,209	-	2,281,404	-
Capital leases	339,648	759,812	168,025	931,435	228,733
Other postemployment benefits	17,197,592	3,083,148	-	20,280,740	-
Supplemental employees retirement benefits	8,370,838	-	3,338,852	5,031,986	2,096,020
Total	<u>\$ 88,591,198</u>	<u>\$ 117,347,425</u>	<u>\$ 35,509,383</u>	<u>\$ 170,429,240</u>	<u>\$ 4,792,109</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Regularly scheduled principal payments on the capital leases are paid by the General Fund, the Charter School Fund and the Adult Education Fund. Certificates of Participation were paid off in the current year by bond proceeds received during the year. Accumulated vacation and supplemental employee retirement benefits are paid by the funds for which the employees worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding June 30, 2012	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2013
2005	2023	3.00%-5.31%	\$ 40,215,000	\$ 33,040,000	\$ -	\$ 26,430,000	\$ 6,610,000
2005	2030	3.00%-5.31%	18,254,288	24,432,813	1,123,126	2,440,000	23,115,939
2013	2048	3.00%-5.00%	68,540,000	-	68,540,000	-	68,540,000
2013	2038	0.63%-5.12%	11,460,000	-	11,460,000	-	11,460,000
2013	2023	0.73%-3.19%	19,675,000	-	19,675,000	-	19,675,000
2013	2023	2.00%-4.00%	9,765,000	-	9,765,000	-	9,765,000
				<u>\$ 57,472,813</u>	<u>\$ 110,563,126</u>	<u>\$ 28,870,000</u>	<u>\$ 139,165,939</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Debt Service Requirements to Maturity

The bonds mature through 2048 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2014	\$ 2,510,000	\$ 5,253,554	\$ 7,763,554
2015	6,250,000	6,001,736	12,251,736
2016	4,085,000	5,805,783	9,890,783
2017	4,530,000	4,261,465	8,791,465
2018	3,760,000	4,166,968	7,926,968
2019-2023	22,505,654	19,868,027	42,373,681
2024-2028	12,100,803	35,897,896	47,998,699
2029-2033	8,837,830	25,727,023	34,564,853
2034-2038	11,585,000	14,376,312	25,961,312
2039-2043	21,080,000	10,343,188	31,423,188
2044-2048	34,215,000	3,908,031	38,123,031
Sub Total	131,459,287	\$ 135,609,983	\$ 267,069,270
Accretion to date	7,706,652		
Total general obligation bonds	\$ 139,165,939		

Certificates of Participation

In April 5, 2005, the Pajaro Valley Unified School District issued certificates of participation in the amount of \$1,645,000 to finance construction related to the Adult Education Center. At July 1, 2012, the principal balance outstanding was \$1,275,000. During the current year the District redeemed \$70,000 of the outstanding certificates and defeased the remaining balance, \$1,205,000.

In January 10, 2010, the Pajaro Valley Unified School District issued certificates of participation in the amount of \$1,415,000 to redeem existing certificates of participation. Interest on this certificate of participation is set at 1.010%. Principal and interest payments are due semi-annually starting July 15, 2010 over the next twenty years and are expected to be complete redeemed by January 15, 2030. During the current year the District redeemed the entire outstanding balance of \$1,320,431 of the outstanding certificates.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2013, amounted to \$2,281,404.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Capital Leases

The District's liabilities on lease agreements with options to purchase are summarized below:

	Porter Building	Bus and SIS System	School Buses	Total
Balance, July 1, 2012	\$ 277,102	\$ 92,436	\$ -	\$ 369,538
Additions	-	-	813,832	813,832
Payments	92,368	92,436	-	184,804
Balance, July 1, 2013	<u>\$ 184,734</u>	<u>\$ -</u>	<u>\$ 813,832</u>	<u>\$ 998,566</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2014	\$ 255,134
2015	255,134
2016	162,766
2017	162,766
2018	162,766
Total	<u>998,566</u>
Less: Amount Representing Interest	67,131
Present Value of Minimum Lease Payments	<u>\$ 931,435</u>

Supplemental Employees Retirement Plan (SERP)

The outstanding balances for the Supplemental Employee Retirement Plans as of June 30, 2013, are as follows:

Year Ending June 30,	2010 Plan	2011 Plan	2012 Plan	Total
2014	\$ 82,341	\$ 1,091,392	\$ 922,287	\$ 2,096,020
2015	-	1,091,392	922,287	2,013,679
2016	-	-	922,287	922,287
Subtotal	<u>\$ 82,341</u>	<u>\$ 2,182,784</u>	<u>\$ 2,766,861</u>	<u>\$ 5,031,986</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Defeased Debt

In 2005, The District defeased the 2002, Series A bond in the amount of \$39,995,542 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2013, the amount of defeased debt outstanding that was removed from the Long Term Debt Obligations and the related trust fund account balance amounted to \$32,640,541 and \$34,279,582, respectively.

In 2013, The District defeased part of the 2002, Series B bond in the amount of \$2,265,000 and part of the 2005 GO Refunding bond by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2013, the amount of defeased debt outstanding that was removed from the Long Term Debt Obligations and the related trust fund account balance amounted to \$26,900,000 and \$30,202,586, respectively.

In 2013, The District defeased the remaining balance of the 2005 certificates of participation, Series in the amount of \$1,205,000 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2013, the amount of defeased debt outstanding that was removed from the Long Term Debt Obligations and the related trust fund account balance amounted to \$1,205,000 and \$1,316,281, respectively.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Charter School Fund	Child Development Fund	Cafeteria Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable							
Revolving cash	\$ 120,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 120,000
Stores inventories	193,113	-	-	156,312	-	-	349,425
Prepaid expenditures	1,386,174	-	-	-	-	-	1,386,174
Total Nonspendable	1,699,287	-	-	156,312	-	-	1,855,599
Restricted							
Legally restricted programs	3,802,160	-	-	-	-	-	3,802,160
Special revenues	-	2,542,580	11,296	3,036,968	-	-	5,590,844
Capital projects	6,253,019	-	-	-	69,813,898	1,186,489	77,253,406
Debt services	-	-	-	-	-	6,762,657	6,762,657
Total Restricted	10,055,179	2,542,580	11,296	3,036,968	69,813,898	7,949,146	93,409,067
Committed							
Adult education program	-	-	-	-	-	504,925	504,925
Deferred maintenance program	-	-	-	-	-	2,355,488	2,355,488
Total Committed	-	-	-	-	-	2,860,413	2,860,413
Assigned							
Instructional Material	2,249,012	-	-	-	-	-	2,249,012
Tier III programs	751,361	-	-	-	-	-	751,361
Total Assigned	3,000,373	-	-	-	-	-	3,000,373
Unassigned							
Reserve for economic uncertainties	5,137,831	-	-	-	-	-	5,137,831
Remaining unassigned	27,242,961	-	-	-	-	-	27,242,961
Total Unassigned	32,380,792	-	-	-	-	-	32,380,792
Total	\$47,135,631	\$ 2,542,580	\$ 11,296	\$ 3,193,280	\$69,813,898	\$ 10,809,559	\$133,506,244

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Pajaro Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 275 retirees and beneficiaries currently receiving benefits and 1,672 active plan members. The Plan is presented in these financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared for the Trust.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (PVFT), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, PVFT, CSEA and the unrepresented groups. For fiscal year 2012-2013, the District contributed \$4,943,178 to the plan, all of which was used for current premiums (approximately 100% percent of total premiums incurred by retirees plus one eligible dependent).

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 6,822,496
Interest on net OPEB obligation	1,203,830
Annual OPEB cost (expense)	8,026,326
Contributions made	(4,943,178)
Increase in net OPEB obligation	3,083,148
Net OPEB obligation, beginning of year	17,197,592
Net OPEB obligation, end of year	<u>\$ 20,280,740</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the most recent six years was as follows:

Year Ended June 30, 2012	OPEB Cost	Amount Contributed	Percentage Contributed	Net OPEB Obligation
2013	\$ 8,026,326	\$ 4,943,178	61.59%	\$ 20,280,740
2012	7,795,167	4,492,879	57.64%	17,197,592
2011	6,539,254	3,090,172	46.26%	13,895,304
2010	6,367,435	2,917,171	45.81%	10,446,222
2009	6,277,594	3,441,731	54.83%	6,995,958
2008	6,190,633	2,636,407	42.59%	3,554,226

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The following shows the funded status for the most recent actuarial valuation:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
April 1, 2011	\$ 1,913,997	\$ 64,844,554	\$ 62,930,557	2.95%	\$ 90,439,263	69.58%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 1, 2011, actuarial valuation, the Entry age normal actuarial cost method was used. The actuarial assumptions included a 7% percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare, dental, and vision cost trend rates were averaged at 4% percent. The UAAL is being amortized at a level percentage of payroll method on an open basis. The remaining open amortization period at April 1, 2011, was 30 years. The actuarial value of assets as of April 1, 2011 was \$1,913,997.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2013, the District contracted with Schools Association For Excess Risk for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

The District's workers' compensation activities are recorded in the Internal Service Fund. The purpose of the fund is to administer workers' compensation on a cost reimbursement basis. The program accounts for the risk financing activities of the District.

Coverage provided by the Schools Association for Excess Risk for Property and Liability and the Pajaro Valley Unified School District Workers' Compensation Self-Insurance Program is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Pajaro Valley Unified School District Workers' Compensation Self-Insurance Program	Workers' Compensation (Incidents prior to 7/1/2012)	\$ 500,000
Public Insurance Program for Schools	Workers' Compensation (Incidents after 6/30/2012)	1,000,000
Benefit Liability Excess Fund	Excess Medical	260,000
Schools Association For Excess Risk	Property	250,000,000
Schools Association For Excess Risk	Liability	25,000,000
Schools Association For Excess Risk	Excess Liability	24,000,000

Claims Liabilities

The District records an estimated liability for workers' compensation, health care, dental and vision. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2011 to June 30, 2013:

Liability Balance, July 1, 2011	\$ 13,866,236
Claims and changes in estimates	38,571,941
Claims payments	(37,765,043)
Liability Balance, June 30, 2012	14,673,134
Claims and changes in estimates	39,091,472
Claims payments	(40,148,386)
Liability Balance, June 30, 2013	\$ 13,616,220
Assets available to pay claims at June 30, 2013	\$ 26,252,529

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$6,129,743, \$6,154,839, and \$5,909,444, respectively, and equal 100 percent of the required contributions for each year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. At Pajaro Valley Unified School District, the district contributes the 7.0 percent on behalf of members within the program prior to July 1, 2012. New members are required to pay 6.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$3,106,257, \$2,900,530, and \$2,812,325, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the APPLE Retirement Program as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.3 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$3,700,126, \$3,664,078, and \$3,053,855, respectively, for 2013, 2012 and 2011 (5.176, 4.855, and 4.267 percent of annual payroll for 2013, 2012, and 2011, respectively). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in the financial statements. These amounts have not been included in the actual or budgeted amounts reported in the General Fund Budgetary Comparison Schedule. On behalf payments have been excluded from the calculation of available reserves.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2013 the District had the following construction commitments.

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Renaissance High Well	\$ 130,000	11/15/2013
Aptos High Water Tank	1,100,000	2/28/2014
Aptos High Bleachers & Sound	525,000	3/15/2014
Total	<u>\$ 1,755,000</u>	

Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2013.

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the district at June 30, 2013.

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Schools Association For Excess Risk (SAFER), School Alliance for Workers' Compensation Excess II (SAWCXII), Public Insurance Program for Schools (PIPS), and Benefit Liability Excess Fund (BeLiEF) public entity risk pools (JPAs). The District pays an annual premium to the applicable entity for its property and liability coverage, excess workers' compensation and excess medical insurance. The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPA has a budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. During the year ended June 30, 2013, the District made payments of \$159,120 to PIPS for workers' compensation insurance, \$9,843 to SAWCXII for excess workers' compensation insurance, \$1,696,757 to BeLiEF for excess medical insurance and \$741,062 to SAFER for excess property and liability insurance.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 15 - SUBSEQUENT EVENT

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the statement of net position dated through December 2, 2013, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variances- Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Revenue limit sources	\$91,156,853	\$91,621,130	\$91,760,292	\$ 139,162
Federal sources	25,486,235	30,131,942	23,859,552	(6,272,390)
Other State sources	44,970,734	49,058,966	48,402,927	(656,039)
Other local sources	1,613,579	5,560,828	3,445,625	(2,115,203)
Total Revenues ¹	163,227,401	176,372,866	167,468,396	(8,904,470)
EXPENDITURES				
Certificated salaries	68,681,124	70,599,878	68,062,434	2,537,444
Classified salaries	25,213,990	26,398,791	24,624,373	1,774,418
Employee benefits	51,754,756	54,124,400	50,586,224	3,538,176
Books and supplies	6,530,830	13,104,263	8,159,187	4,945,076
Services and operating expenditures	16,365,187	21,397,716	18,716,612	2,681,104
Other outgo	-	56,647	56,647	-
Capital outlay	55,000	69,337	778,064	(708,727)
Debt service - principal	289,133	289,133	288,426	707
Debt service - interest	121,900	121,900	97,074	24,826
Total Expenditures ¹	169,011,920	186,162,065	171,369,041	14,793,024
Excess of Revenues Over Expenditures	(5,784,519)	(9,789,199)	(3,900,645)	5,888,554
Other Financing Sources (Uses)				
Transfers in	124,167	124,446	6,279,550	6,155,104
Other sources	-	-	759,812	759,812
Transfers out	(610,590)	(604,602)	(651,792)	(47,190)
Net Financing Sources (Uses)	(486,423)	(480,156)	6,387,570	6,867,726
NET CHANGE IN FUND BALANCES	(6,270,942)	(10,269,355)	2,486,925	12,756,280
Fund Balance - Beginning	44,648,706	44,648,706	44,648,706	-
Fund Balance - Ending	\$38,377,764	\$34,379,351	\$47,135,631	\$ 12,756,280

¹ On behalf payments of \$3,700,126 in the General Fund are excluded from the actual revenues and expenditures, but have been included in the basic financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**CHARTER SCHOOL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variances- Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 7,873,987	\$ 7,631,667	\$ 7,947,362	\$ 315,695
Other State sources	1,783,691	1,783,970	2,062,783	278,813
Other local sources	5,800	10,960	136,607	125,647
Total Revenues	<u>9,663,478</u>	<u>9,426,597</u>	<u>10,146,752</u>	<u>720,155</u>
EXPENDITURES				
Certificated salaries	4,359,648	4,640,230	4,647,038	(6,808)
Classified salaries	598,139	629,925	696,615	(66,690)
Employee benefits	2,422,148	2,531,305	2,549,226	(17,921)
Books and supplies	190,984	2,318,496	527,240	1,791,256
Services and operating expenditures	2,471,878	2,542,894	2,444,890	98,004
Total Expenditures	<u>10,042,797</u>	<u>12,662,850</u>	<u>10,865,009</u>	<u>1,797,841</u>
Excess of Revenues Over Expenditures	(379,319)	(3,236,253)	(718,257)	2,517,996
Other Financing Sources (Uses)				
Transfers in	219,444	267,841	292,425	24,584
NET CHANGE IN FUND BALANCES	<u>(159,875)</u>	<u>(2,968,412)</u>	<u>(425,832)</u>	<u>2,542,580</u>
Fund Balance - Beginning	2,968,412	2,968,412	2,968,412	-
Fund Balance - Ending	<u>\$ 2,808,537</u>	<u>\$ -</u>	<u>\$ 2,542,580</u>	<u>\$ 2,542,580</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**CHILD DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts			Variances- Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Federal sources	\$ 6,380,187	\$ 7,407,153	\$ 6,990,656	\$ (416,497)
Other State sources	2,957,333	2,746,492	2,583,813	(162,679)
Other local sources	223,300	495,170	403,168	(92,002)
Total Revenues	9,560,820	10,648,815	9,977,637	(671,178)
EXPENDITURES				
Certificated salaries	2,647,948	2,631,729	2,653,185	(21,456)
Classified salaries	1,288,239	1,220,615	1,324,382	(103,767)
Employee benefits	2,454,126	2,557,290	2,534,230	23,060
Books and supplies	600,906	1,070,342	656,134	414,208
Services and operating expenditures	2,569,601	3,200,092	2,806,363	393,729
Capital outlay	-	-	23,999	(23,999)
Total Expenditures	9,560,820	10,680,068	9,998,293	681,775
NET CHANGE IN FUND BALANCES	-	(31,253)	(20,656)	10,597
Fund Balance - Beginning	31,952	31,952	31,952	-
Fund Balance - Ending	\$ 31,952	\$ 699	\$ 11,296	\$ 10,597

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**CAFETERIA FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variances- Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Federal sources	\$ 7,015,000	\$ 7,815,318	\$ 8,443,376	\$ 628,058
Other State sources	591,000	591,000	663,533	72,533
Other local sources	805,000	805,000	637,793	(167,207)
Total Revenues	8,411,000	9,211,318	9,744,702	533,384
EXPENDITURES				
Classified salaries	2,099,453	2,270,618	2,105,532	165,086
Employee benefits	2,667,093	2,769,007	2,634,358	134,649
Books and supplies	3,406,859	4,324,947	4,318,878	6,069
Services and operating expenditures	206,295	342,104	278,891	63,213
Capital outlay	-	34,244	33,158	1,086
Total Expenditures	8,379,700	9,740,920	9,370,817	370,103
NET CHANGE IN FUND BALANCES	31,300	(529,602)	373,885	903,487
Fund Balance - Beginning	2,819,395	2,819,395	2,819,395	-
Fund Balance - Ending	\$ 2,850,695	\$ 2,289,793	\$ 3,193,280	\$ 903,487

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
April 1, 2011	\$ 1,913,997	\$64,844,554	\$62,930,557	2.95%	\$90,439,263	69.58%
March 1, 2009	1,650,064	65,626,212	63,976,148	2.51%	113,529,631	56.35%
March 1, 2007	2,208,048	52,884,097	50,676,049	4.18%	114,434,798	44.28%

SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education Act:			
Adult Basic Education & ESL	84.002A	14508	\$ 102,093
Priority 5, Adult Secondary Education	84.002	13978	23,525
English Literacy & Civics Education	84.002A	14109	16,007
No Child Left Behind Act:			
Title I-Basic Grants Low-Income and Neglected	84.010	14329	4,738,674
Title I-ARRA, Part A, School Site Improvements	84.388	15004	1,936,005
Title I-Migrant Education (Regular and Summer Program)	84.011	14326	4,258,288
Title I-Even Start Migrant Education	84.214	14768	87,913
Title I-School Site Improvements	84.377	14971	2,497,255
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330B	14831	36,192
Title II-Teacher Quality	84.367	14341	901,423
Title II-Mathematics and Science Partnerships	84.366	14512	762,738
Title III-Limited English Proficiency Student	84.365	10084	715,376
Title IV-21st Century Community Centers Learning	84.287	14349	2,611,201
Alcohol Abuse Reduction Grant	84.184A	1	587,822
Individuals with Disability Act:			
Basic Local Assistance Entitlement	84.027	13379	3,129,350
Mental Health Allocation Plan, Part B, Section			
611 Private Schools	84.027	14468	175,393
Preschool Grants	84.173	13430	173,716
Preschool Local Entitlement	84.027A	13682	328,423
Preschool Staff Development	84.173A	13431	2,165
Early Intervention Grants	84.181	23761	246,523
Workability II	84.158	10006	230,146
California Preschool Instructional Network	84.173	14530	169,939
Subtotal			<u>23,730,167</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education:			
Child Development Act:			
Federal Child Care Center Base	93.596	13609	500,359
Head Start	93.600	10016	6,490,297
Medi-Cal Billing Option	93.778	10013	271,033
Subtotal			<u>7,261,689</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
National School Lunch Act:			
National School Lunch Program	10.555	13396	5,028,411
Meal Supplements	10.553	13390	485,146
Especially Needy Breakfast	10.553	13526	2,295,772
Child and Adult Care Food Program	10.558	23165	190,836
Fresh Fruits and Vegetables	10.582	14968	443,210
Commodity grants at fair market value	10.555	13396	156,312
Subtotal			<u>8,599,687</u>
Total Expenditures of Federal Awards			<u>\$ 39,591,543</u>

¹ Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2013

ORGANIZATION

The Pajaro Valley Unified School District was established in 1964 and consists of an area comprising approximately 150 square miles. The District operates sixteen elementary, six middle, three high schools, one community day school, one continuation high school, an adult education school, twelve childcare centers, a migrant center and five charter schools.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Willie Yahiro	President	2014
Kim De Serpa	Vice President	2014
Leslie De Rose	Member	2014
Karen Osmundson	Member	2016
Jeff Ursino	Member	2014
Dr. Lupe Rivas	Member	2016
Maria Orozco	Member	2016

ADMINISTRATION

Dorma Baker	Superintendent
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See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE -DISTRICT FOR THE YEAR ENDED JUNE 30, 2013

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,453	1,464
First through third	4,328	4,340
Fourth through sixth	3,923	3,929
Seventh and eighth	2,322	2,319
Home and hospital	4	4
Special education	409	411
Total Elementary	12,439	12,467
SECONDARY		
Regular classes	4,370	4,334
Continuation education	175	176
Home and hospital	4	4
Community day schools	31	32
Special education	222	319
Total Secondary	4,802	4,865
Total K-12	17,241	17,332
CLASSES FOR ADULTS		
Adults in correctional facilities	31	32
Grand Total	17,272	17,364

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE – CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2013**

Second Period Report						
ALL CHARTER SCHOOLS	Academic Vocational	Alianza	Linscott	Pacific Coast	Watsonvill e	Total
Classroom-Based						
Kindergarten	-	80	21	-	39	140
First through third	-	244	104	-	118	466
Fourth through sixth	-	197	87	-	98	383
Seventh and eighth	-	102	54	-	-	156
Ninth through twelfth	67	-	-	-	-	67
Total Classroom-Based	67	624	267	-	255	1,212
Non-Classroom-Based						
Kindergarten	-	-	-	6	-	6
First through third	-	-	-	30	-	30
Fourth through sixth	-	-	-	27	-	27
Seventh and eighth	-	-	-	28	-	28
Ninth through twelfth	-	-	-	167	-	167
Total Non-Classroom-Based	-	-	-	259	-	259
Grant Total	67	624	267	259	255	1,471

Annual Report						
ALL CHARTER SCHOOLS	Academic Vocational	Alianza	Linscott	Pacific Coast	Watsonvill e	Total
Classroom-Based						
Kindergarten	-	80	21	-	39	140
First through third	-	243	104	-	118	465
Fourth through sixth	-	196	87	-	98	381
Seventh and eighth	-	102	53	-	-	156
Ninth through twelfth	67	-	-	-	-	67
Total Classroom-Based	67	622	266	-	254	1,209
Non-Classroom-Based						
Kindergarten	-	-	-	6	-	6
First through third	-	-	-	30	-	30
Fourth through sixth	-	-	-	27	-	27
Seventh and eighth	-	-	-	29	-	29
Ninth through twelfth	-	-	-	168	-	168
Total Non-Classroom-Based	-	-	-	260	-	260
Grant Total	67	622	266	260	254	1,469

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME - DISTRICT FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2012-2013 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	31,500	30,625	36,000	35,000	36,000	180	In Compliance
Grades 1 - 3							
Grade 1	31,500	30,625	50,400	49,000	50,525	180	In Compliance
Grade 2	31,500	40,833	50,400	49,000	50,525	180	In Compliance
Grade 3	31,500	40,833	50,400	49,000	50,525	180	In Compliance
Grades 4 - 6							
Grade 4	42,000	40,833	54,000	52,500	54,113	180	In Compliance
Grade 5	42,000	51,042	54,000	52,500	54,113	180	In Compliance
Grade 6	42,000	51,042	54,000	52,500	54,113	180	In Compliance
Grades 7 - 8							
Grade 7	52,500	51,042	54,000	52,500	55,980	180	In Compliance
Grade 8	52,500	51,042	54,000	52,500	55,980	180	In Compliance
Grades 9 - 12							
Grade 9	59,500	57,847	64,800	63,000	65,058	180	In Compliance
Grade 10	59,500	57,847	64,800	63,000	65,058	180	In Compliance
Grade 11	59,500	57,847	64,800	63,000	65,058	180	In Compliance
Grade 12	59,500	57,847	64,800	63,000	65,058	180	In Compliance

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME – CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	Education Code Section 46201.2 Required Minutes	2012-2013 Actual Minutes	Status
Academic Vocational Charter Institute			
Grade 9	62,949	65,615	In Compliance
Grade 10	62,949	65,615	In Compliance
Grade 11	62,949	65,615	In Compliance
Grade 12	62,949	65,615	In Compliance
Alianza Elementary Charter School			
Kindergarten	34,971	36,125	In Compliance
Grade 1	48,960	50,674	In Compliance
Grade 2	48,960	50,690	In Compliance
Grade 3	48,960	50,690	In Compliance
Grade 4	52,457	54,385	In Compliance
Grade 5	52,457	54,206	In Compliance
Grade 6	52,457	54,206	In Compliance
Grade 7	52,457	54,206	In Compliance
Grade 8	52,457	54,206	In Compliance
Linscott Elementary Charter School			
Kindergarten	34,971	40,500	In Compliance
Grade 1	48,960	52,200	In Compliance
Grade 2	48,960	52,200	In Compliance
Grade 3	48,960	54,150	In Compliance
Grade 4	52,457	54,150	In Compliance
Grade 5	52,457	54,150	In Compliance
Grade 6	52,457	54,150	In Compliance
Grade 7	52,457	54,150	In Compliance
Grade 8	52,457	54,150	In Compliance
Watsonville Charter School of Arts			
Kindergarten	34,971	38,745	In Compliance
Grade 1	48,960	52,195	In Compliance
Grade 2	48,960	52,195	In Compliance
Grade 3	48,960	52,195	In Compliance
Grade 4	52,457	54,995	In Compliance
Grade 5	52,457	54,995	In Compliance
Grade 6	52,457	55,190	In Compliance

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

	(Budget) 2014 ¹	2013	2012	2011
GENERAL FUND				
Revenues	\$ 177,537,055	\$ 167,468,396	\$ 172,845,394	\$ 170,530,502
Other sources and transfers in	50,000	7,039,362	517,020	546,279
Total Revenues and Other Sources	177,587,055	174,507,758	173,362,414	171,076,781
Expenditures	190,609,140	171,369,041	166,307,000	161,403,134
Other uses and transfers out	926,242	651,792	753,103	691,927
Total Expenditures and Other Uses	191,535,382	172,020,833	167,060,103	162,095,061
INCREASE (DECREASE) IN FUND BALANCE	\$ (13,948,327)	\$ 2,486,925	\$ 6,302,311	\$ 8,981,720
ENDING FUND BALANCE	\$ 33,187,304	\$ 47,135,631	\$ 44,648,706	\$ 38,346,395
AVAILABLE RESERVES ²	\$ 28,266,488	\$ 32,380,792	\$ 34,128,004	\$ 29,494,310
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	14.76%	18.82%	20.43%	18.20%
LONG-TERM DEBT	\$ 165,637,131	\$ 170,429,240	\$ 88,591,198	\$ 84,996,289
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	17,202	17,241	17,199	16,970

The General Fund balance has increased by \$8,789,236 over the past two years. The fiscal year 2013-2014 budget projects a decrease of \$13,948,327. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred three operating surpluses in the past three years, but anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long-term obligations have increased by \$85,432,951 over the past two years.

Average daily attendance has increased by 271 over the past two years. A decline of 39 ADA is anticipated during fiscal year 2013-2014.

¹ Budget 2014 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ On-behalf payments of \$3,700,126, \$3,664,078, and \$3,053,855, in the General Fund have been excluded from the revenues and expenditures for fiscal years ending June 30, 2013, 2012, and 2011, respectively.

⁴ Excludes Adult Education and Charter Schools ADA.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Academic Vocational Charter Institute	Yes
Alianza Elementary Charter School	Yes
Linscott Elementary Charter School	Yes
Pacific Coast Charter School	Yes
Watsonville Charter School of Arts	Yes
Ceiba College Preparatory Academy	No

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

CHARTER SCHOOLS

SCHEDULE OF CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	Linscott Elementary	Watsonville School of Arts	Pacific Coast Charter School	Alianza Elementary	Academic Vocational	Total
Fund balance, beginning	\$ 643,540	\$ 218,933	\$ 842,400	\$1,258,756	\$ 4,783	\$ 2,968,412
Revenues	1,698,041	1,805,708	1,767,113	4,431,889	736,427	10,439,178
Expenditures	(1,744,957)	(1,872,937)	(1,634,081)	(4,875,338)	(737,697)	(10,865,010)
Fund balance, ending	<u>\$ 596,624</u>	<u>\$ 151,704</u>	<u>\$ 975,432</u>	<u>\$ 815,307</u>	<u>\$ 3,513</u>	<u>\$ 2,542,580</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FIRST 5 MONTEREY GRANT
SCHEDULE OF GRANT REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013**

Grantor/Program	Revenue	Expenditures
First 5 Monterey	\$ 94,684	\$ 94,684

See accompanying note to supplementary information.

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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Adult Education Fund	Deferred Maintenance Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 209,020	\$ 2,401,215	\$ 1,199,110
Receivables	109,085	-	-
Due from other funds	319,310	-	-
Total Assets	\$ 637,415	\$ 2,401,215	\$ 1,199,110
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 74,732	\$ 45,727	\$ 12,621
Deferred revenue	57,758	-	-
Total Liabilities	132,490	45,727	12,621
Fund Balances:			
Restricted	-	-	1,186,489
Committed	504,925	2,355,488	-
Total Fund Balances	504,925	2,355,488	1,186,489
Total Liabilities and Fund Balances	\$ 637,415	\$ 2,401,215	\$ 1,199,110

See accompanying note to supplementary information.

County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ 6,762,657	\$ 10,572,002
-	-	109,085
-	-	319,310
<u>\$ -</u>	<u>\$ 6,762,657</u>	<u>\$ 11,000,397</u>

\$ -	\$ -	\$ 133,080
-	-	57,758
-	-	190,838

-	6,762,657	7,949,146
-	-	2,860,413
-	6,762,657	10,809,559

<u>\$ -</u>	<u>\$ 6,762,657</u>	<u>\$ 11,000,397</u>
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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	Adult Education Fund	Deferred Maintenance Fund	Capital Facilities Fund
REVENUES			
Federal sources	\$ 141,647	\$ -	\$ -
Other State sources	882,177	-	-
Other local sources	529,373	9,113	935,337
Total Revenues	1,553,197	9,113	935,337
EXPENDITURES			
Current			
Instruction	1,177,507	-	-
Instruction-related activities:			
Supervision of instruction	343,467	-	-
Instructional library, media, and technology	48,776	-	-
School site administration	731,473	-	-
Pupil services:			
All other pupil services	62,114	-	-
Administration:			
All other administration	43,920	-	-
Plant services	2,558	569,062	431,345
Facility acquisition and construction	-	123,704	19,710
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	2,409,815	692,766	451,055
Excess (Deficiency) of Revenues Over Expenditures	(856,618)	(683,653)	484,282
Other Financing Sources (Uses)			
Transfers in	331,790	-	-
Other sources	-	-	-
Net Financing Sources (Uses)	331,790	-	-
NET CHANGE IN FUND BALANCES	(524,828)	(683,653)	484,282
Fund Balance - Beginning	1,029,753	3,039,141	702,207
Fund Balance - Ending	\$ 504,925	\$ 2,355,488	\$ 1,186,489

See accompanying note to supplementary information

County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 141,647
-	33,448	915,625
4	3,939,141	5,412,968
4	3,972,589	6,470,240
-	-	1,177,507
-	-	343,467
-	-	48,776
-	-	731,473
-	-	62,114
-	-	43,920
-	-	1,002,965
65,316	-	208,730
-	1,970,000	1,970,000
-	1,822,250	1,822,250
65,316	3,792,250	7,411,202
(65,312)	180,339	(940,962)
27,577	-	359,367
-	3,668,996	3,668,996
27,577	3,668,996	4,028,363
(37,735)	3,849,335	3,087,401
37,735	2,913,322	7,722,158
\$ -	\$ 6,762,657	\$ 10,809,559

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that had been recorded as revenues in the fiscal year ended June 30, 2012 then spent during the fiscal year ended June 30, 2013. The unspent balances are reported as legally restricted ending fund balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 39,435,231
Add: Fair Market Value of Commodities not recorded in the financial statements	10.555	156,312
Total Schedule of Expenditures of Federal Awards		<u>\$ 39,591,543</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries, schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2013

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the School District, and displays information for each Charter School on whether or not the Charter School is included in the School District audit.

Charter School Statement of Changes in Fund Balances

The charter school schedule of changes in fund balances provides information about the changes in fund balance in each of the five charter schools operated by the District.

First 5 Monterey Grant Schedule of Revenues and Expenditures

The First 5 Monterey grant schedule of revenues and expenditures provides information about the current year revenues and expenses of the grant program operated by the District.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Pajaro Valley Unified School District
Watsonville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pajaro Valley Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Pajaro Valley Unified School District's basic financial statements, and have issued our report thereon dated December 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pajaro Valley Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pajaro Valley Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pajaro Valley Unified School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Summary of Auditors Results and Schedule of Findings and Questioned Costs (2013-1) that we consider to be significant deficiencies.

Compliance and Other Matters

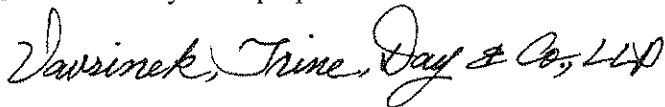
As part of obtaining reasonable assurance about whether Pajaro Valley Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pajaro Valley Unified School District's Response to Findings

Pajaro Valley Unified School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs (2013-1). Pajaro Valley Unified School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Palo Alto, California
December 2, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Pajaro Valley Unified School District
Watsonville, California

Report on Compliance for Each Major Federal Program

We have audited Pajaro Valley Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pajaro Valley Unified School District's (the District) major Federal programs for the year ended June 30, 2013. Pajaro Valley Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pajaro Valley Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Pajaro Valley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Pajaro Valley Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Pajaro Valley Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Pajaro Valley Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pajaro Valley Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pajaro Valley Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Palo Alto, California
December 2, 2013



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Pajaro Valley Unified School District
Watsonville, California

Report on State Compliance

We have audited Pajaro Valley Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of Pajaro Valley Unified School District's State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Pajaro Valley Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Pajaro Valley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pajaro Valley Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the Other Programs

In our opinion, Pajaro Valley Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2013.

Other Matters

In connection with the audit referred to above, we selected and tested transactions and records to determine the Pajaro Valley Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	Yes
Determination of Funding for Non Classroom-Based Instruction	3	Yes
Annual Instruction Minutes Classroom-Based	4	Yes

Varvink, Trine, Day & Co., LLP

Palo Alto, California
December 2, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies)?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with of OMB Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>84.011 & 84.214</u>	<u>Title I - Migrant Education</u>
<u>84.377 & 84.388 (ARRA)</u>	<u>Title I - School Site Improvement Grants</u>
<u>84.027 & 84.173</u>	<u>IDEA, Special Education Cluster</u>
<u>93.600</u>	<u>Head Start</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,187,746</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

2013-1 Code - 30000 Cash Collection for The Food Sales

Criteria or Specific Requirements

Management is responsible for establishing and maintaining internal controls, including those related to the prevention and detection of fraud, and monitoring activities of those controls. This responsibility includes verifying the completeness of cash receipts collected at school sites for the sale of meals.

Condition

During our inspection of school meal sales and the Districts procedures performed to verify that such sales are accurately recorded and complete, we noted that no procedures are performed that reconcile the cash receipts/deposits to the point-of-sale system used to process and record the sale.

Questioned costs

Unknown

Context

All sales of paid and reduced price meals and related cash receipts.

Effect

Reconciling the cash collected from the sale of school meals to the point-of-sale system used to process those transactions is an important procedure used to verify that all cash that should have been collected from such sales, was in-fact received. If this procedure is not performed the District is at a higher risk of misappropriation of assets and an understatement of related revenues.

Cause

The District implemented a new point-of-sale system at the beginning of the school year and had not established procedures to reconcile cash collections to sales reports.

Recommendation

Develop and implement procedures to reconcile cash receipts for the sale of school meals to point-of-sale system reports.

Corrective Action Plan

The district has implemented procedures to reconcile cash receipts for the sale of school meals to point-of-sale system reports. The site cashier will enter the cash denominations at the end of the day into the Food Service point of sale program. All money will be sent to the Food Service office daily. The daily money will be counted and compared to the amount entered in the point of sale system for that day.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

2013-2 Code - 30000 Associated Student Body

Criteria or Specific Requirements

Management is responsible for establishing and maintaining internal controls, including those related to the prevention and detection of fraud, and monitoring activities of those controls. This responsibility extends to the activities of the associated student body accounts (ASB).

Condition

During our visit at Cesar Chavez Middle School, we noted weaknesses in internal control.

- No revenue potential forms were prepared.
- Ticket logs were not used to track the sale of tickets at school events.

During our visit at Aptos High School, we noted weaknesses in internal control.

- No revenue potential forms were prepared.
- Student approval was not documented for purchases made by the Athletics Club.

Questioned Costs

None.

Context

All cash collections made through fund raising activities and all purchases made using the Cesar Chavez Middle School and Aptos High School student body funds.

Effect

Revenue potentials enable the ASB to control their cash collections insuring that all items sold have been collected in cash or returned back to the ASB's inventory. If those calculations were not performed, sales and related cash collections could be misstated. In addition, having disbursements supported by proper purchase orders and authorization from the student minutes is necessary to ensure that all disbursements were properly approved by the student council.

Cause

Cesar Chavez

- Procedures in place were not enforced.
- Cesar Chavez does not use the "ticket" method for everything but rather a tally sheet method which is also recommended by CASBO.

Aptos High School

- Procedures in place were not enforced.
- The Athletics program is run as a program not an ASB club.

Recommendation

We recommend that the ASB prepare revenue potential/sale analysis for fund raising events. We also recommend that all purchases are supported by the proper document.

All ticket sales should be supported by the completion and reconciliation of ticket logs.

All disbursements of ASB funds must have student authorization and documentation indicating that such authorization was obtained prior to the disbursement of funds.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Corrective Action Plan

Cesar Chavez

- District recommends Principal will not approve any fundraisers unless revenue potential form is completed. District will audit all fundraisers for Cesar Chavez in May for compliance.
- District will require all tally sheets to be turned in with deposits for balancing.

Aptos High

- District recommends Principal will not approve any fundraisers unless revenue potential form is completed. District will audit all fundraisers for Aptos High School in May for compliance.

District will develop clear lines of policy and process for Athletic account at Aptos High School.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

2012-1 Code 40000

State Compliance

Finding

In accordance with *Education Code 51747(c)(8)*, Each independent study written agreement shall be signed, prior to the commencement of independent study, by the pupil, the pupil's parent, legal guardian, or caregiver, if the pupil is less than 18 years of age, the certificated employee who has been designated as having responsibility for the general supervision of independent study, and all persons who have direct responsibility for providing assistance to the pupil.

Written agreements for independent study allowed did not have the pupil's signature affixed to the document.

Recommendation

We recommend that the District provide regular and updated training and information to school site personnel in-charge of attendance and short-term independent study programs regarding the requirements for short-term independent study programs on a regular basis.

Current Status

The recommendation has been implemented.